









# Interprovincial Pipe Line Limited

# Annual Report 1980

## Directors

LORENZ P. BLASER  
President  
Gulf Canada Products Company,  
Toronto

EDWARD H. CRAWFORD  
President & Chief Executive Officer  
The Canada Life Assurance  
Company, Toronto

\*GLENN H CURTIS  
President  
Glenn H Curtis & Associates  
Limited, Calgary

JEAN-CLAUDE DELORME  
President & Chief Executive Officer  
Telelobe Canada, Montreal

DAVID C. FLEMING  
Vice-President & General Manager  
Interprovincial Pipe Line Limited,  
Edmonton

W. DOUGLAS H. GARDINER  
Director  
The Royal Bank of Canada,  
Vancouver

\*ROBERT C. GIMLIN  
President & Chief Executive Officer  
Abitibi-Price Inc., Toronto

ROBERT K. HEULE  
President & Chief Executive Officer  
Interprovincial Pipe Line Limited,  
Toronto

\*C. EDWARD MEDLAND  
President & Chief Executive Officer  
Wood Gundy Limited, Toronto

DONALD J. TAYLOR  
Senior Vice-President  
Shell Canada Limited, Toronto

WILLIAM A. WEST  
Vice-President  
Imperial Oil Limited, Toronto

\*Members of Audit Committee

## Officers

ROBERT K. HEULE  
President & Chief Executive Officer

DAVID C. FLEMING  
Vice-President & General Manager

E. GORDON SHEASBY  
Vice-President, General Counsel & Secretary

LAWRENCE W. BLAINE  
Vice-President & Treasurer

JOHN R. CULHAM, Controller

DEREK P. TRUSWELL, Assistant Controller

FREDERICK B. NEWTON, Assistant Treasurer

J. NEIL ST. JOHN, Assistant Secretary

## Annual Meeting

2:30 p.m. Tuesday, April 14, 1981, "Upper  
Canada" Room, Royal York Hotel, 100 Front  
Street West, Toronto.

The Notice of Meeting, Proxy Circular and Form  
of Proxy are being mailed with this report to all  
shareholders of record on March 16, 1981.

## Contents

	Page
Directors and Officers - - - - -	1
Highlights- - - - -	2
Directors' Report to Shareholders - -	3-11
Statistical Information and Map of System - - - - -	12-13
Financial Statements and Auditors' Report - - - - -	14-21
Ten Year Review - - - - -	22-23
Corporate Information- - - - -	24

## Highlights

<b>Financial</b>	<b>1980</b>	<b>1979</b>	<b>Percentage Increase (Decrease)</b>
Transportation revenue	<b>\$302,028,000</b>	\$315,176,000	(4%)
Deficiency Agreement	<b>\$ 6,760,000</b>	\$ 5,320,000	
Other income	<b>\$ 12,270,000</b>	\$ 10,323,000	19%
Expenses, excluding taxes	<b>\$202,024,000</b>	\$199,993,000	1%
Income and other taxes	<b>\$ 70,330,000</b>	\$ 75,314,000	(7%)
Earnings	<b>\$ 48,704,000</b>	\$ 55,512,000	(12%)
per share	<b>\$ 1.90</b>	\$ 2.17	
Dividends	<b>\$ 38,459,000</b>	\$ 37,744,000	2%
per share	<b>\$ 1.50</b>	\$ 1.47½	
Capital expenditures	<b>\$ 31,459,000</b>	\$ 29,133,000	
Funds provided from operations	<b>\$ 93,546,000</b>	\$101,287,000	

## Statistical

Deliveries (cubic metres per day)\*

By Quarters

First	<b>240 115</b>	247 131	
Second	<b>222 035</b>	236 554	
Third	<b>209 751</b>	235 950	
Fourth	<b>219 998</b>	246 232	
Yearly average	<b>222 930</b>	241 449	
Highest month	<b>247 375</b>	253 661	
Lowest month	<b>202 314</b>	229 268	
Cubic metres delivered	<b>81 592 000</b>	88 129 000	(7%)
Cubic metre kilometres (millions)	<b>187 127</b>	195 958	(5%)

## Price Range of common shares

High	<b>\$20</b>	\$21¼
Low	<b>\$15¼</b>	\$15¾

\*1 cubic metre = 6.3 barrels



## Directors' Report to Shareholders



R. K. Heule, President

Earnings in 1980 were lower than in 1979 due to a decline in throughput and an increase in operating costs. Earnings were \$48.7 million or \$1.90 per share, 12% less than the record high level of 1979. Deliveries in 1980 averaged 222 930 cubic metres per day ( $\text{m}^3/\text{d}$ ) compared with 241 449  $\text{m}^3/\text{d}$  in 1979, a reduction of approximately 7%. The reason for the decline was lower deliveries to United States refineries primarily due to a reduction in Canadian crude oil exports and lower transportation demand to certain U.S. locations. Deliveries to U.S. destinations declined to 49 000  $\text{m}^3/\text{d}$  from 65 000  $\text{m}^3/\text{d}$  in 1979.

In the first quarter of 1980 total deliveries averaged 240 000  $\text{m}^3/\text{d}$  which generally followed the high production levels of 1979 and the build-up of refinery inventories. However, the final three quarters of the year were affected by reduced refinery demand.

In spite of lower production rates and supply irregularities, Canadian domestic oil supply in 1980 was sufficient to meet Ontario demand plus delivery of

49 000  $\text{m}^3/\text{d}$  to Montreal, Quebec. However, oil supply could become the overriding constraint for our system deliveries in 1981. In fact, based on shipper projections of deliveries in 1981, and including the projected Alberta government cutbacks in production rates, a 10% decrease in average deliveries could occur. In the event of such a decrease, domestic deliveries into Ontario and Quebec would have to be supplemented by substantially higher priced imports.

The foregoing outlook indicates that the company's growth in throughput during the latter half of the 1970's may be reversed during the 1980's. Unfortunately, the immediate decline is partly due to action by federal and provincial governments. In addition, the recent National Energy Program fails to provide incentives for development of conventional crude oil reserves in the Western Basin despite the fact that a large potential lies in that area. The National Energy Program appears designed to shift exploration incentives to the higher risk and remote frontier areas. We believe a more balanced program of incentives which includes the existing production areas of Western Canada would be more effective in serving national interests. Nonetheless, changes in crude oil production and government action with respect to production and sales of liquid hydrocarbons will continue to be important factors affecting the company's future.

During the year the company continued to work successfully with its shippers to comply with diverse service requirements. In the future, it is expected that specialized product service will become a larger component of our business. Optimum operating efficiency consistent with high standards of safety and reliability will continue to be operating priorities. In addition, the com-

pany is committed to maintaining its record of operating more safely and with less threat to the environment than any other mode of transportation.

The company is continuing to explore potential pipeline opportunities with its shippers. Changing supply and demand patterns for liquid hydrocarbons create the possibility for new investments in transportation facilities. Although a lengthy lead time is usually required for major investments, the company is hopeful that these may soon develop beyond the planning stage.

### Rate Regulation

With respect to rate regulation, some positive events occurred in 1980. Firstly, the National Energy Board approved new rates for the company effective September 1. Rates on the Canadian system excluding the Montreal Extension were increased by 7.3% and were designed to include a 15.25% annual return on equity. Secondly, the NEB established a procedure whereby new rates could be applied for in order to reflect adjustments in throughput, cost of service and rate base without the necessity of a public hearing when no changes were advocated in the rate methodology, practices and policies previously approved by the Board. In accordance with the new procedure, the company filed on December 15 new rates which reflected the foregoing adjustments for 1981 including the projected reduction in deliveries from Alberta. The new rates became effective February 15, 1981 and represent an average increase in rates of 6.2% excluding the Montreal Extension. The company welcomes this new procedure which will enable it to adjust tariffs in accordance with changing throughput and costs with a minimum of delay or regulatory lag.

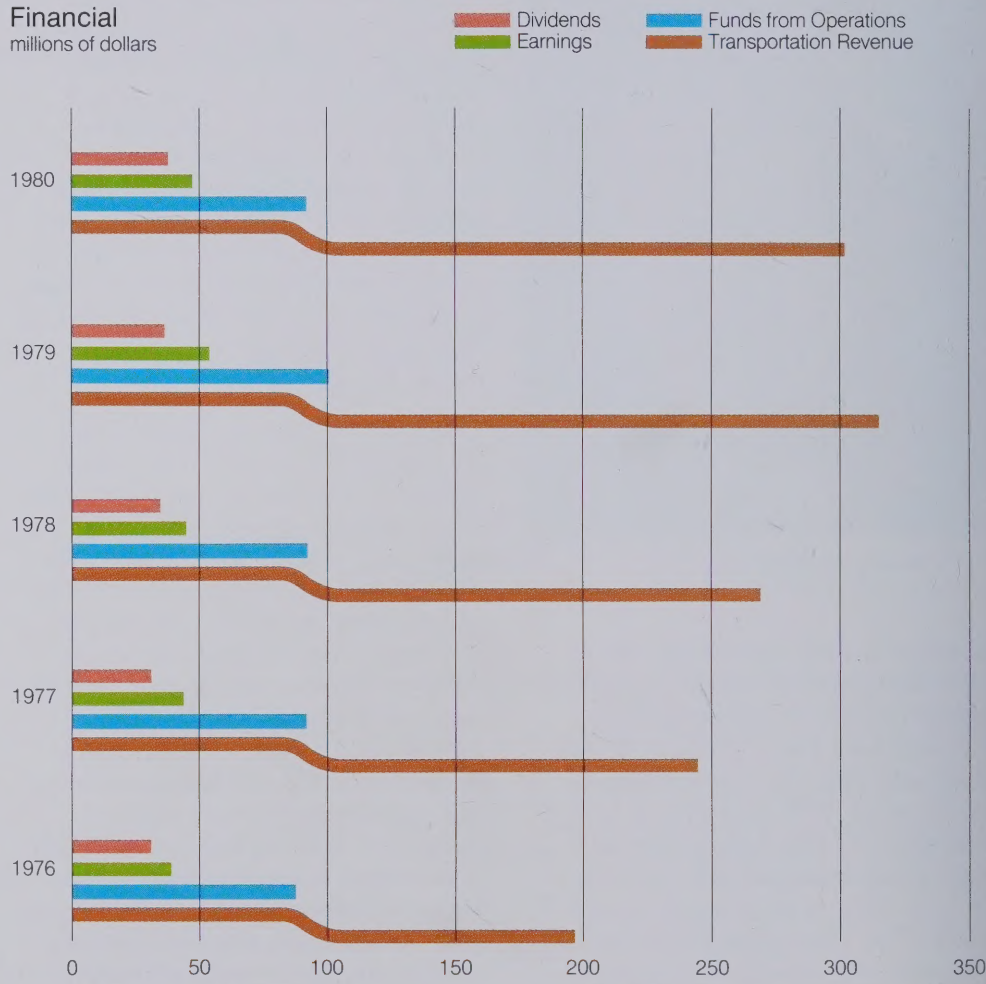


The investigation by the Federal Energy Regulatory Commission in the U.S. into the transportation rates of Lakehead is still stayed, pending the decision by the Commission in two cases involving other companies which should establish general oil pipeline rate-making standards. During 1980 Lakehead filed initial rates from Clearbrook, Minnesota for the delivery of U.S. domestic crude to various locations, and on December 5 Lakehead filed a general rate increase effective January 5, 1981 to reflect projected throughput and costs for 1981. In each case the rate filing was suspended for one day and allowed to become effective subject to refund if subsequently found to be unreasonable. The general rate increase referred to represents a 7.9% increase in posted tariffs which was the first general increase in rates by Lakehead since October 1978.

It is emphasized however that continued recognition by the regulatory agencies of the oil pipeline industry's unique risks is required. Current government actions such as the National Energy Program and the federal-provincial confrontation on energy supplies create risks which are not normally reflected in public utility rate setting standards which have been applied to the company. Besides uncertainty of supply and risk of unfavourable government action, new investment in pipelines is currently exposed to a high inflation risk. The impact of inflation on capital costs can severely affect the form of financing and return requirements on new projects which are already viewed as risky due to the high cost and highly specialized nature of the assets. Such investment must be rewarded with higher rates of return or greater pricing flexibility. We are confident that the regulatory agencies are aware of these conditions confronting the industry and will meet these problems with practical and effective decisions.

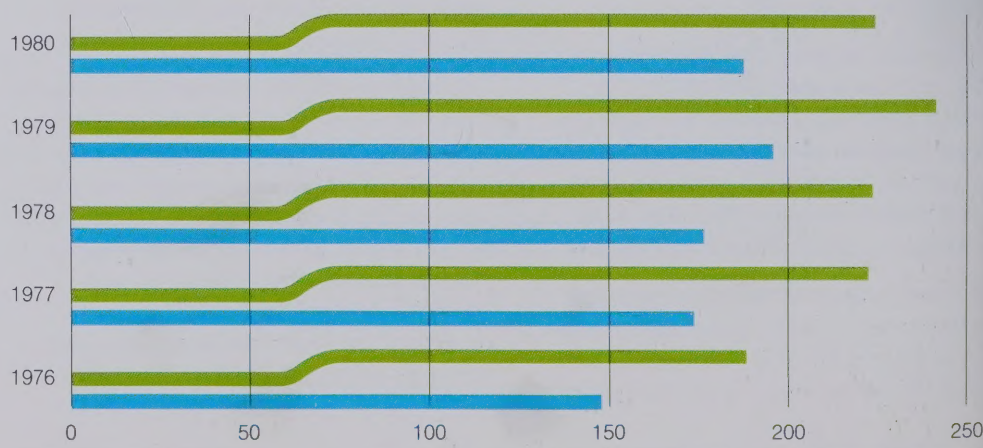
## Financial

millions of dollars



## Statistical

Deliveries—cubic metres per day (thousands)  
—cubic metre kilometres (billions)





## Financial Review

### Norman Wells

In March 1980 the company filed an application with the NEB to construct an 866 km 324 mm diameter pipeline extending from Norman Wells in the Northwest Territories to Zama in north-western Alberta. The company also filed an application with the Minister of Indian Affairs and Northern Development for land rights required to construct and operate the pipeline. The pipeline is designed to transport 4 000 m<sup>3</sup>/d of crude oil and natural gas liquids from expanded production facilities at Norman Wells.

A Federal Environmental Assessment Panel conducted public hearings in the Northwest Territories and northwestern Alberta in the late summer of 1980 to consider both the oil field development and the construction of the pipeline. The Panel's report released in January 1981 recommended that the overall project not be proceeded with until 1982 at the earliest in order that certain further work can be completed relating to the environmental and socio-economic impacts. A 1982 start-up of construction would result in a revised schedule to have the pipeline operational by the summer of 1984 rather than the fall of 1983 as originally planned.

The NEB public hearings on the project were completed in November 1980 and a decision of the Board on the company's application for a certificate to construct the pipeline is expected by mid 1981.

The Consolidated Financial Statements, Auditors' Report and accompanying Notes to the Financial Statements appear on pages 14 to 21 and include the accounts of Interprovincial and its wholly-owned subsidiary. A ten year review of selected financial and statistical information is shown on pages 22 and 23.

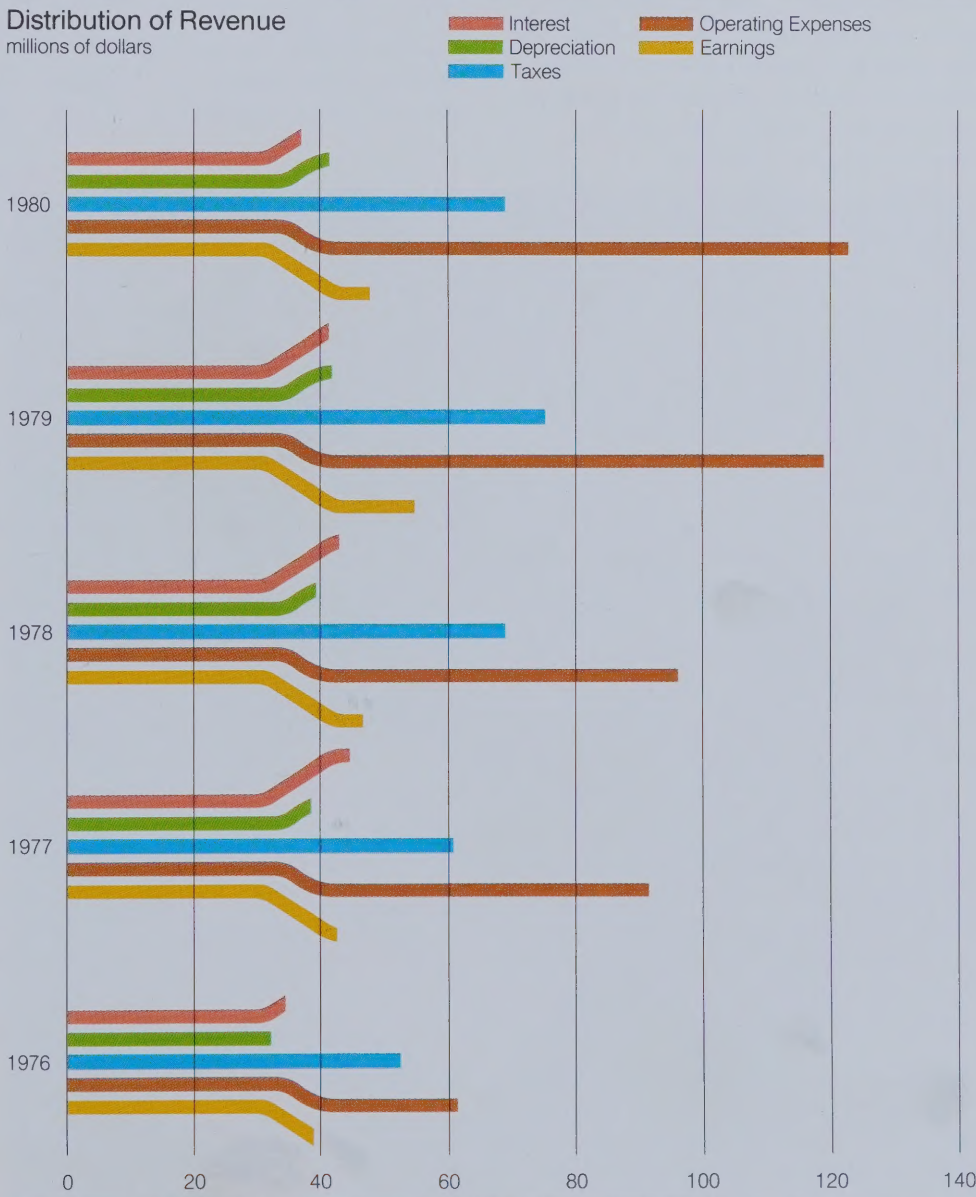
### Income

Total income for the year decreased by 3% to \$321 million from \$331 million in 1979.

Transportation revenue was \$302 million, \$13 million less than the previous year. This decrease was mainly attributable to lower deliveries to U.S. refineries as a result of reduced Canadian crude exports to Northern Tier refineries, loss

### Distribution of Revenue

millions of dollars





of U.S. deliveries from Chicago to Marysville, Michigan (Detroit/Toledo) and reduced demand in the Buffalo, New York area. In addition, deliveries to Sarnia, Ontario were down slightly during the year due to reduced refinery demand. The gain on U.S. exchange on transportation revenue in the U.S. was also lower than in the previous year. Offsetting the above, the rate increase on the Canadian system effective September 1, 1980 contributed some improvement to revenue. Also, the average haul per cubic metre delivered increased by 3% over the previous year thereby partially offsetting the effect of reduced deliveries.

Revenue from the Montreal Extension Deficiency Agreement with the Canadian Government amounted to \$6.8 million compared with \$5.3 million in 1979. These amounts recover the excess of operating costs and other fixed expenses over the transportation revenue attributed to the Montreal Extension. Deliveries to Montreal were slightly lower in 1980 and revenues allocable to the Montreal Extension were also lower thereby increasing the deficiency payments.

### Expenses

Power and fuel costs increased to \$75 million from \$74 million in the previous year despite reduced throughput. This was due to higher electric power rates throughout the system.

Other operating expenses were \$47.3 million, up \$3.6 million. This was mainly due to increased salaries, wages and benefits as well as oil losses which were affected by the higher prices of crude oil.

Income and withholding taxes payable to Canadian and U.S. governments amounted to \$52.2 million, a decrease of \$6.1 million due to reduced earnings

in 1980. Property, other capital and use taxes paid to governments amounted to \$18.2 million, up \$1.2 million over 1979.

### Earnings and Dividends

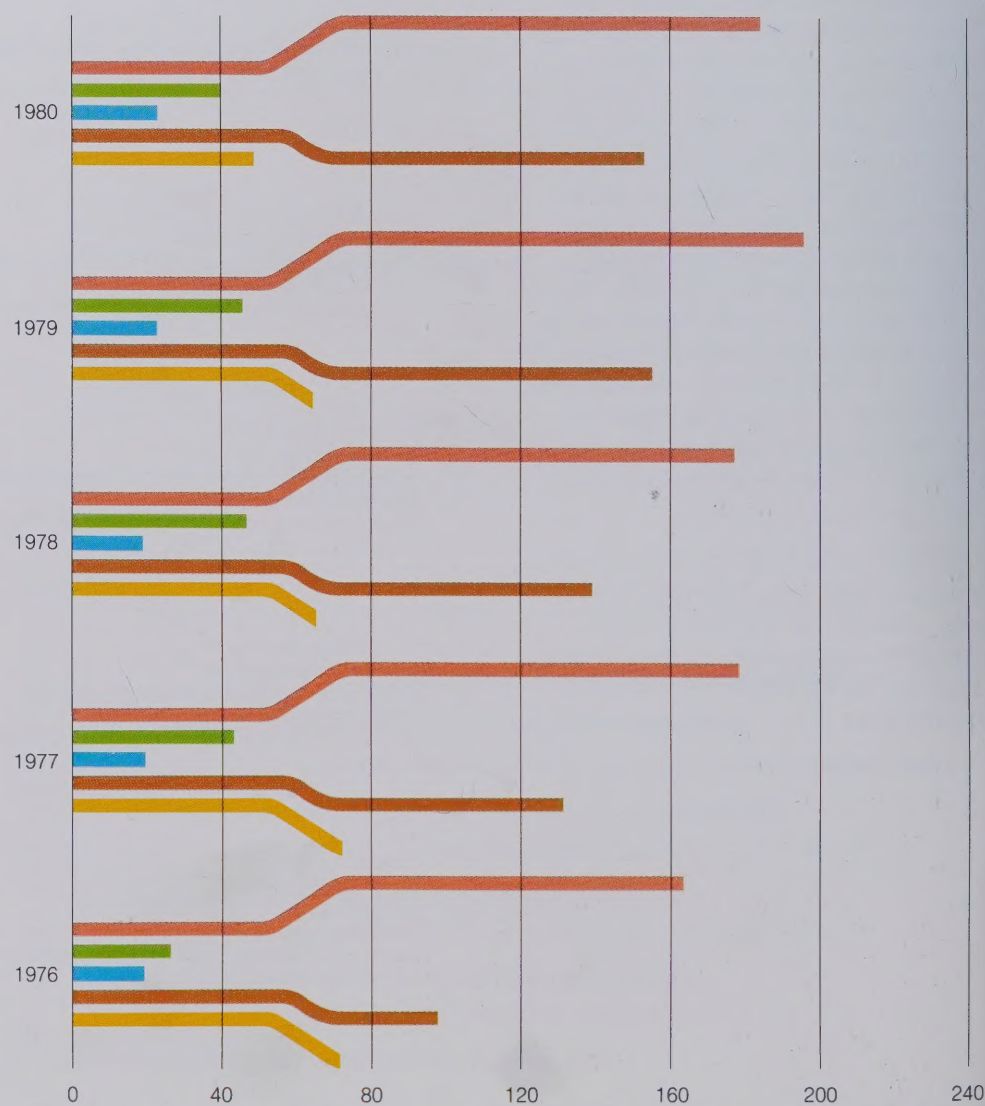
Earnings for the year were \$48.7 million or \$1.90 per share compared with \$55.5 million or \$2.17 per share in 1979.

Dividends of \$1.50 per share were paid during the year and totalled \$38.5 million or 79% of earnings. This was an increase from 1979 when dividends of \$1.47½ per share were paid totalling \$37.7 million. Shareholders may receive stock dividends instead of cash dividends should they so elect. During the year 53 616 common shares with an aggregate cash value of \$920,000 were issued from treasury as stock dividends.

### Receipts & Deliveries

cubic metres per day (thousands)

Receipts: Canada (red), United States (green)  
Deliveries: Western Canada (blue), Eastern Canada (brown), United States (yellow)





## Operations

Total volumes of crude oil and other liquid hydrocarbons received and delivered by the pipeline system were 7% lower than in 1979. Reduced deliveries to refineries in the United States accounted for most of the decrease.

### Deliveries—by location

(thousands of cubic metres per day)

	1980	1979
<b>CANADA</b>		
Canadian Production		
Prairie Provinces	22.3	22.3
Ontario - - -	93.8	97.5
Quebec - - -	43.8	43.2
	<u>159.9</u>	<u>163.0</u>

### U.S. and Offshore Production

Ontario - - -	8.9	7.9
Quebec - - -	5.2	5.8
	<u>14.1</u>	<u>13.7</u>

<b>TOTAL CANADIAN DELIVERIES - - -</b>	<b><u>174.0</u></b>	<b><u>176.7</u></b>
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### UNITED STATES

#### Canadian Production

Minnesota-		
Wisconsin- -	16.6	25.6
Illinois-Indiana -	3.9	2.4
Michigan-Ohio -	1.8	2.9
New York-		
Pennsylvania-	1.0	1.8
	<u>23.3</u>	<u>32.7</u>

### U.S. and Offshore Production

Minnesota-		
Wisconsin- -	1.7	.4
Illinois-Indiana -	1.1	.2
Michigan-Ohio -	6.8	14.1
New York-		
Pennsylvania-	16.0	17.3
	<u>25.6</u>	<u>32.0</u>

<b>TOTAL U.S. DELIVERIES -</b>	<b><u>48.9</u></b>	<b><u>64.7</u></b>
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<b>TOTAL DELIVERIES - -</b>	<b><u>222.9</u></b>	<b><u>241.4</u></b>
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### Deliveries—by type

(thousands of cubic metres per day)

	1980	1979
<b>CRUDE OIL</b>		
Light - - - -	149.2	166.9
Medium and heavy	32.0	31.5
Oil sands - - -	14.5	11.5
<b>NATURAL GAS LIQUIDS</b>		
Condensate - -	8.6	9.4
Propane/butane mix - - - -	9.1	11.2
<b>REFINED PRODUCTS -</b>	<b><u>9.5</u></b>	<b><u>10.9</u></b>
	<u>222.9</u>	<u>241.4</u>

### Receipts—by location

(thousands of cubic metres per day)

	1980	1979
Alberta - - - -	157.3	168.7
Saskatchewan - -	24.1	24.4
Manitoba - - - -	1.7	1.7
Ontario - - - -	.5	.7
United States - -	39.9	46.0
	<u>223.5</u>	<u>241.5</u>



Remote control centre at Sarnia.







## Tariffs

The business of Interprovincial and Lakehead is the transportation of crude oil, natural gas liquids and refined petroleum products by pipeline at established tariffs. Interprovincial's tariffs for transportation in Canada are filed with the NEB and Lakehead's tariffs are filed with the FERC.

As mentioned elsewhere in this report, tariffs were adjusted effective September 1, 1980 in Canada and early in 1981 in both Canada and the United States.

As a result of these adjustments, combined Interprovincial and Lakehead rates for representative shipments at February 15, 1981 are:

Rates for light crude in  
Dollars per cubic metre  
From

To	Edmonton	Chicago
Regina	\$1.239	\$ —
Clearbrook	2.618	—
Superior	3.066	—
Chicago	3.969	—
Sarnia	4.310	1.141
Toronto	4.665	1.495
Buffalo	4.806	1.637
Montreal	6.463	3.294

The rates for heavier crude, natural gas liquids and refined petroleum products are slightly higher.

## Construction

### 1980 Review

Capital expenditures during 1980 totalled \$31 million.

The final phase of a two year program to replace 62 km of 864 mm diameter pipe in Alberta was completed with the installation of 47 km of pipe at a cost well within the budget allocation of \$14 million.

On the Lakehead system the replacement of 24 diesel pumping units with 12 more efficient electric units is nearing completion at the Clearbrook and Deer River, Minnesota and Superior, Wisconsin pumping stations. The new units should be operational by the second quarter of 1981.

### 1981 Forecast

Capital expenditures for 1981 are estimated at \$44 million.

The major project in the 1981 construction program, at an estimated cost of \$18 million, is the electrification of the five remaining diesel pumping stations in Western Canada. On completion of this work all Interprovincial and Lakehead stations will be powered by electric motors.

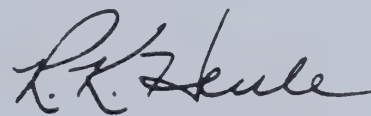
Other 1981 projects include the installation of additional main line valves on the 864 mm diameter pipeline to improve environmental protection. Also the construction of new crude oil metering facilities at Hardisty, Alberta, Kerrobert, Saskatchewan and Griffith, Indiana will enhance the efficiency and accuracy of measurement procedures at these major custody transfer locations.

## General

Mr. L. P. Blaser, who is retiring from Gulf Canada Products Company, will not be standing for re-election to the Board of Directors. Mr. Blaser has been a valued member of the Board since 1972. His advice and counsel will be greatly missed.

Mr. D. C. Fleming, Vice-President and General Manager and a Director of the company, will be retiring on March 31, 1981 following more than 27 years of valued service. Our sincere appreciation is extended for his many contributions and achievements.

The Directors and management acknowledge the loyalty and dedication of all employees whose high level of performance throughout the year contributed significantly to the successful operations of the company.



R. K. Heule,  
President



Metropolitan areas served by the pipeline.  
Clockwise: Regina, Saskatchewan;  
Duluth, Minnesota and Superior,  
Wisconsin; Montreal, Quebec;  
Toronto, Ontario; Chicago, Illinois.









# The Pipeline Transportation System

as at December 31, 1980

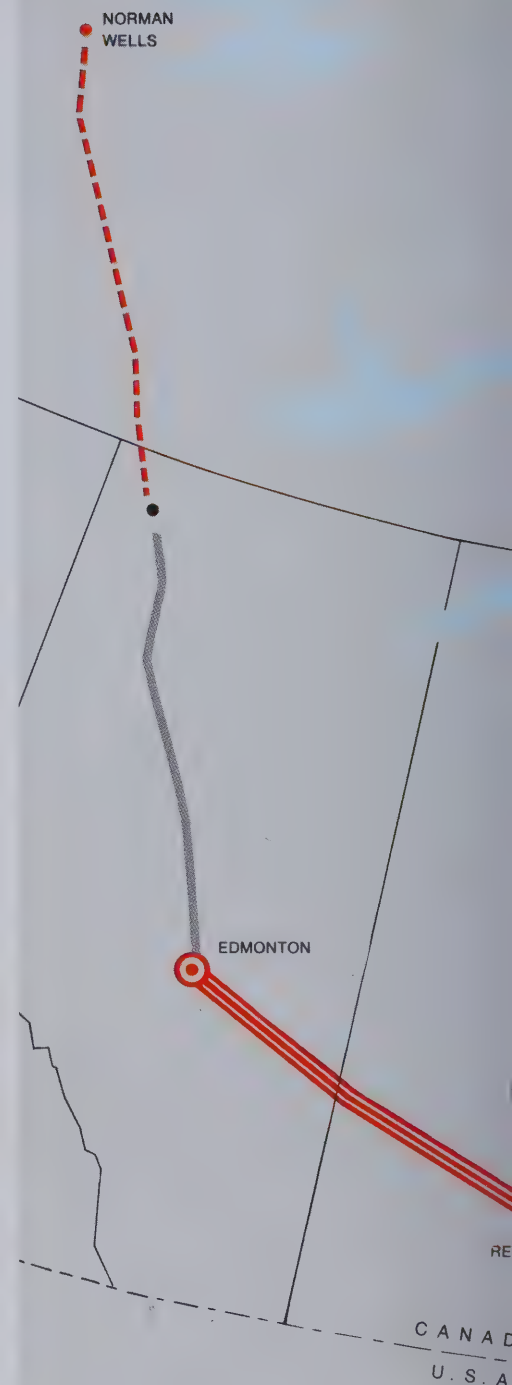
	Canada	United States	Total
Right-of-Way (kilometres)	2 280	2 799	5 079
Number of Pumping Stations	32	50	82
Installed Power (kilowatts)	405 519	326 393	731 912
Line Fill (cubic metres—provided by shippers)	2 175 000	1 919 000	4 094 000

## Pipeline Capacity

Line Section	Thousands of Cubic Metres Per Day 1981
Edmonton-Regina	240
Regina-Superior	230
Superior-Sarnia via Straits of Mackinac	88
Superior-Sarnia via Chicago	117
Sarnia-Toronto	74
Sarnia-Montreal	54
Westover-Buffalo	25

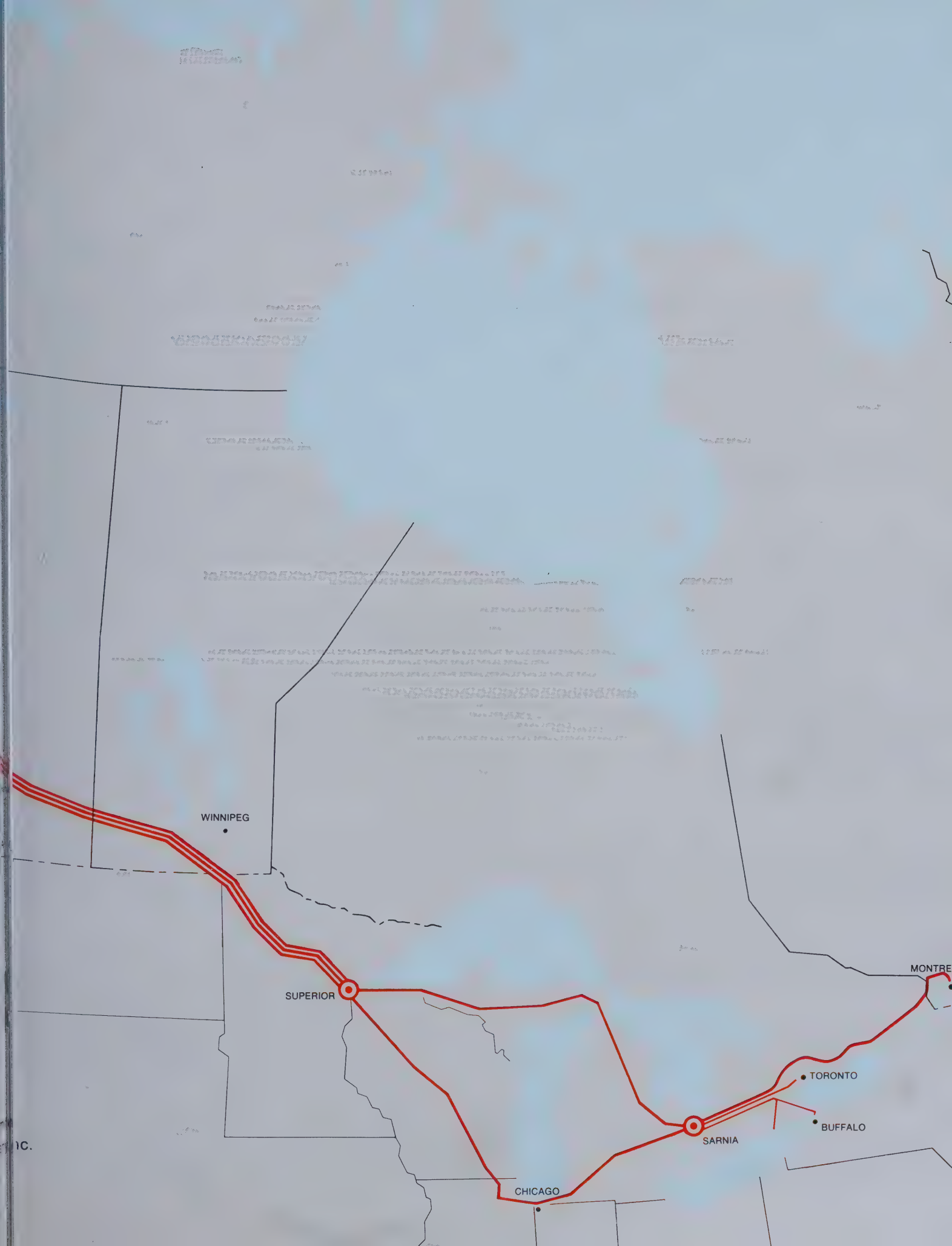
## Kilometres of Main Line Pipe

Diameter (mm)	Canada	United States	Total
324	106	42	148
406	681	—	681
457	62	523	585
508	1 287	20	1 307
610	1 242	—	1 242
660	3	523	526
762	856	1 646	2 502
864	1 245	1 270	2 515
1 219	361	170	531
Total Kilometres	5 843	4 194	10 037



Interprovincial Pipe Line Ltd.  
Lakehead Pipe Line Company







Interprovincial Pipe Line Limited and subsidiary companies

## Consolidated Statement of Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1980	1979
<b>Income</b>		
Transportation revenue	<b>\$302,028</b>	\$315,176
Montreal Extension Deficiency Agreement (Note 2)	<b>6,760</b>	5,320
Other income	<b>12,270</b>	10,323
	<b>321,058</b>	330,819
<b>Expenses (Note 1)</b>		
Operating—power and fuel	<b>75,044</b>	74,020
—other	<b>47,264</b>	43,687
Property and other taxes	<b>18,169</b>	16,975
Provision for depreciation and amortization	<b>42,091</b>	40,992
Interest on long term debt	<b>37,275</b>	40,175
Foreign exchange	<b>350</b>	1,119
	<b>220,193</b>	216,968
<b>Earnings before income taxes</b>	<b>100,865</b>	113,851
<b>Provision for income taxes (Note 1)</b>		
Current	<b>49,826</b>	54,281
Deferred	<b>2,664</b>	3,163
Deferred investment tax credits	<b>(329)</b>	895
	<b>52,161</b>	58,339
<b>Earnings for the year</b>	<b>\$ 48,704</b>	\$ 55,512
<b>Earnings per share (Note 1)</b>	<b>\$ 1.90</b>	\$ 2.17

## Consolidated Statement of Retained Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1980	1979
<b>Balance at beginning of year</b>	<b>\$188,006</b>	\$170,238
Earnings for the year	<b>48,704</b>	55,512
	<b>236,710</b>	225,750
Dividends paid—(per share: 1980—\$1.50; 1979—\$1.475)	<b>38,459</b>	37,744
<b>Balance at end of year</b>	<b>\$198,251</b>	\$188,006



Interprovincial Pipe Line Limited and subsidiary companies

**Consolidated Statement of Changes in Financial Position**

(in thousands of dollars)

Year ended December 31

**1980**

1979

**Source of Funds**

Earnings for the year	<b>\$48,704</b>	\$55,512
Add—Charges (credit) to earnings not affecting working capital		
Depreciation and amortization	<b>42,091</b>	40,992
Deferred income taxes	<b>2,664</b>	3,163
Deferred investment tax credits	<b>(329)</b>	895
Other	<b>416</b>	725
Provided from operations	<b>93,546</b>	101,287
Capital stock issued	<b>920</b>	814
	<b>94,466</b>	102,101

**Use of Funds**

Dividends	<b>38,459</b>	37,744
Additions to pipeline transportation system	<b>31,459</b>	29,133
Long term debt retired or included in current liabilities	<b>24,713</b>	30,700
Other transactions	<b>1,787</b>	252
	<b>96,418</b>	97,829

**Change in Working Capital**

<b>Working Capital at Beginning of Year</b>	<b>56,626</b>	52,354
<b>Working Capital at End of Year</b>	<b>\$54,674</b>	\$56,626



Interprovincial Pipe Line Limited and subsidiary companies

# Consolidated Balance Sheet

(in thousands of dollars)

	December 31	
	1980	1979
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash, including bank term deposits	\$ 30,422	\$ 19,609
Short term investments, at lower of cost and market	43,922	50,338
Accounts receivable—		
Transportation charges	21,731	26,386
Montreal Extension Deficiency Agreement (Note 2)	6,313	7,553
Other	1,752	2,231
Inventory of materials and supplies, at cost	4,450	5,909
Prepaid expenses	379	342
	108,969	112,368
<b>Deferred Charges and Other Assets</b>		
Unamortized discount and expense on long term debt (Note 1)	3,963	4,404
Other (Note 6)	7,024	3,323
	10,987	7,727
<b>Pipeline Transportation System, at cost (Notes 1 and 3)</b>	<b>1,148,642</b>	<b>1,124,158</b>
Less—Accumulated depreciation and amortization	440,331	403,326
	708,311	720,832
	\$ 828,267	\$ 840,927

The financial statements have been approved by the Board:



Director



Director



	December 31	
<b>LIABILITIES</b>	<b>1980</b>	<b>1979</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 16,280	\$ 15,438
Interest accrued	10,458	11,031
Income and other taxes	14,147	15,863
Current portion of long term debt	13,410	13,410
	<b>54,295</b>	55,742
<b>Long Term Debt</b> (Note 4)	<b>379,985</b>	404,698
<b>Deferred Income Taxes</b> (Note 1)	<b>134,750</b>	132,086
<b>Deferred Investment Tax Credits</b> (Note 1)	<b>11,377</b>	11,706
 <b>Shareholders' Equity</b>		
<b>Capital Stock</b> (Note 5)	<b>26,342</b>	25,620
<b>Contributed Surplus</b>	<b>23,267</b>	23,069
<b>Retained Earnings</b> (Note 1)	<b>198,251</b>	188,006
	<b>247,860</b>	236,695
	 <b>\$828,267</b>	<b>\$840,927</b>

### Auditors' Report

To the Shareholders of  
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta  
February 6, 1981

*PricewaterhouseCoopers*  
Chartered Accountants



## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned United States subsidiary Lakehead Pipe Line Company, Inc. and its wholly-owned subsidiary Pipe Line Service Company, Inc.

#### Regulation

Interprovincial operates a pipeline system for the transportation of crude oil and other liquid hydrocarbons.

Construction, operations, accounting and rates in Canada are under the regulatory authority of the National Energy Board. Rates, accounting and other practices in the United States are under the regulatory authority of the Federal Energy Regulatory Commission. The companies follow the accounting policies prescribed or authorized by these authorities.

In January 1979 the Federal Energy Regulatory Commission instituted an investigation of Lakehead's tariffs. The investigation has been stayed by the Commission pending its determination of general oil pipeline rate-making standards in other rate proceedings presently in progress.

Because the United States rate-making standards have not yet been determined and because the Interprovincial pipeline system at present operates primarily to transport Western Canadian crude oil to Ontario and Quebec, management is of the opinion that segmented information on a geographic basis is not meaningful. Accordingly, such information has not been presented in the financial statements.

#### Foreign Exchange

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—

at the rate of exchange December 31;

Other assets and liabilities—

at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—

at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net losses arising from the foregoing methods are included on the Consolidated Statement of Earnings as Foreign exchange.

#### Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to \$441,000 in 1980 and \$566,000 in 1979.

#### Pipeline Transportation System, Depreciation and Amortization

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

Interprovincial follows the accounting practice of capitalizing, at the annual rate of return on rate base authorized by the National Energy Board, an allowance for interest and equity costs on funds required to finance construction work in progress in Canada. This practice resulted in \$494,000 and \$387,000 being capitalized by Interprovincial in the years 1980 and 1979 respectively.

Effective January 1, 1980 Lakehead changed its method of accounting for interest costs to comply with a recently issued Statement by the Financial Accounting Standards Board. In 1980 interest costs incurred of \$235,000 were capitalized as part of the cost of newly constructed facilities. Previously, the company capitalized interest during the construction period only when funds were borrowed for additions to the pipeline transportation system. No interest was capitalized in 1979.



The companies provide for depreciation of fixed assets, excluding the Montreal Extension and Assets Specially Classified, on the straight-line method at annual rates which will amortize the costs of depreciable properties over their estimated service lives after taking into account possible salvage values. The rate of depreciation on these facilities averages approximately 3%.

In accordance with terms of the Deficiency Agreement with the Canadian Government (Note 2), Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

The National Energy Board determined that certain facilities are not fully utilized and has ordered that the undepreciated cost of these Assets Specially Classified should be amortized over a period of five years. Effective July 1, 1978, Interprovincial commenced amortization of assets with a net book value on that date of \$14,740,000. This resulted in additional charges to earnings of \$2,197,000 and \$2,190,000 during 1980 and 1979 respectively.

When fixed assets are retired or otherwise disposed of, the cost less net salvage, is charged to accumulated depreciation, except for unusual disposals for which the profit or loss is included in earnings as directed by regulatory authorities.

#### **Deferred Income and Withholding Taxes**

The companies follow the tax allocation basis of accounting. Under Canadian and United States income tax regulations, depreciation and other costs deducted for tax purposes may differ from the amounts recorded in the accounts. The companies claim the maximum deductions permitted for tax purposes which results in deferral of taxes to years when amounts deductible are less than the depreciation recorded in the accounts.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of \$72,166,000 U.S. of Lakehead at December 31, 1980 because they have been reinvested in that company.

#### **Deferred Investment Tax Credits**

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of

the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

#### **Earnings per Share**

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the stock options had been exercised during the year.

#### **Pension Plans**

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately \$8,810,000 at December 31, 1979. This amount, together with interest, will be charged to earnings in varying annual installments to 1994. The companies fund accrued pension costs. For the years ended December 31, 1980 and 1979 total costs of the plans amounted to \$2,725,000 and \$2,957,000 respectively, of which \$1,065,000 and \$1,463,000 were applicable to past service benefits. At December 31, 1979 pension fund assets exceeded the actuarially computed value of the vested portion of the benefits.

## **2. Montreal Extension Deficiency Agreement**

Interprovincial and the Canadian Government are parties to a Deficiency Agreement whereby the Government will pay the deficiency if operating revenue in respect of the Extension is not sufficient to meet the fixed and variable costs of the Extension. Under the Agreement the Government has an option to purchase the Extension at its capital cost less depreciation, plus related expenses. The option is exercisable within 120 days following the date upon which a deficiency payment is made.

Tariffs prescribed by the National Energy Board in respect of the Montreal Extension do not produce sufficient operating revenue to meet the fixed and variable costs of the Extension and have resulted in deficiencies of \$6,760,000 and \$5,320,000 in the years 1980 and 1979 respectively.



### 3. Pipeline Transportation System, Accumulated Depreciation and Amortization

The pipeline transportation system and accumulated depreciation and amortization by major classes were as follows:  
(in thousands of dollars)

	Investment, at cost	Accumulated depreciation & amortization	Net investment December 31	
	December 31, 1980		1980	1979
Land	\$ 3,091		\$ 3,091	\$ 3,106
Rights-of-way	14,923	\$ 6,290	8,633	9,022
Pipeline	592,913	266,607	326,306	332,731
Pumping equipment, buildings and tanks	254,245	92,137	162,108	157,513
Montreal Extension	248,625	56,773	191,852	203,742
Assets specially classified	25,935	18,524	7,411	10,273
Construction in progress	8,910		8,910	4,445
	<b>\$1,148,642</b>	<b>\$440,331</b>	<b>\$708,311</b>	<b>\$720,832</b>

### 4. Long Term Debt

Long Term Debt (excluding current portion) outstanding at December 31 was as follows:  
(in thousands of dollars)

	1980	1979
Interprovincial Pipe Line Limited		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985	\$ 4,780	\$ 5,530
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	17,069	18,704
B—9½% due December 1, 1990	42,332	44,640
C—8½% due May 1, 1993	38,792	41,488
D—10½% due July 15, 1996	75,000	75,000
E—10½% due February 1, 1996	75,000	75,000
F—9½% due May 1, 1996	39,860	42,520
Serial Debentures (unsecured)—		
Series D—9¼% due July 15, 1981		5,000
E—9½% due February 1, 1981		5,000
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1980—\$10,593 U.S.; 1979—\$10,593 U.S.)	11,404	11,404
B—7½% due April 15, 1993 (1980—\$48,311 U.S.; 1979—\$51,500 U.S.)	52,017	55,451
C—7.60% due June 15, 1997 (1980—\$24,115 U.S.; 1979—\$25,365 U.S.)	23,731	24,961
	<b>\$379,985</b>	<b>\$404,698</b>



The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets; no further Bonds may be issued.

Principal repayments required on Long Term Debt for the years ended December 31, 1982 through 1985 are \$18,922,000, \$24,436,000, \$25,486,000 and \$27,006,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to \$87,152,000 and if translated at the December 31, 1980 rate of exchange would be \$99,183,000.

## **5. Capital Stock**

Interprovincial is authorized to issue an unlimited number of common shares and preferred shares, each without nominal or par value. At December 31, 1980 and 1979 there were 25,673,141 and 25,619,525 common shares outstanding. During 1980, 53,616 shares with an aggregate cash value of \$920,000 were issued from treasury as stock dividends. No preference shares have been issued.

Under the Employee Incentive Stock Option Plan, options have been granted to full-time employees to purchase shares of capital stock at not less than 90% of the market value of the shares on the day that the options were granted. No further shares are available for future grants. During 1980 no options for shares were exercised and options for 34,500 shares expired. At December 31, 1980 options were out-

standing on 43,925 shares at a price of \$25.80 per share exercisable until April 1981 and on 53,500 shares at a price of \$14.75 per share exercisable until December 1988.

## **6. Norman Wells Pipeline Project**

Interprovincial completed public hearings in 1980 before a Federal Environmental Review Panel and the National Energy Board concerning the company's proposal to construct a 324 mm diameter pipeline 866 km in length from Norman Wells in the Northwest Territories to Zama in northwestern Alberta. The National Energy Board's decision is expected by mid 1981 on the company's application for a certificate to construct the pipeline. If approved, the pipeline will be constructed by a wholly-owned subsidiary, Interprovincial Pipe Line (NW) Ltd., at an estimated cost of \$360 million, the major portion of which will be financed by long term debt. In 1980 and 1979 Interprovincial incurred preliminary costs of \$2,331,000 and \$51,000 respectively. These amounts are recorded as Other assets.

## **7. Related Party Transactions**

At December 31, 1980 Imperial Oil Limited owned 32.7% of the outstanding capital stock of Interprovincial. During the years ended December 31, 1980 and 1979 shipments through the pipeline system by Imperial Oil under published pipeline tariff terms accounted for approximately 14% and 15% of consolidated transportation revenue. At year end 1980 and 1979 transportation revenue receivable from Imperial Oil amounted to \$1,638,000 and \$1,691,000 respectively.



# Interprovincial Pipe Line Limited and subsidiary companies

## Ten Year Review

**Financial** (in thousands of dollars except per share amounts)

	1980
Income—Transportation revenue	\$ 302,028
—Deficiency Agreement	\$ 6,760
—Other income	\$ 12,270
Expenses—Operating—power and fuel	\$ 75,044
—other	\$ 47,614
—Property and other taxes	\$ 18,169
—Depreciation and amortization	\$ 42,091
—Interest	\$ 37,275
Income taxes	\$ 52,161
Earnings	\$ 48,704
per share, weighted average	\$ 1.90
Dividends paid	\$ 38,459
per share	\$ 1.50
percentage of earnings	79%
Working capital (deficit)	\$ 54,674
Funds provided from operations	\$ 93,546
Additions to pipeline system	\$ 31,459
Investment in pipeline system (cost)	\$1,148,642
Long term debt	\$ 379,985

## Statistical

Shares outstanding at year end (thousands)	25 673
Percentage of shares registered in Canada	95%
Shareholders at year end	21 598
Number of employees at year end	809
Investment in pipeline system, per employee	\$1,420,000
Receipts (m <sup>3</sup> /d)	
—Alberta	157 251
—Saskatchewan	24 119
—Manitoba	1 678
—Ontario	510
—United States	39 951
	<u>223 509</u>
Deliveries (m <sup>3</sup> /d)	
Canada—Prairie Provinces	22 270
—Ontario	102 724
—Quebec	49 018
	<u>174 012</u>
United States—Minnesota-Wisconsin	18 328
—Illinois-Indiana	4 919
—Michigan-Ohio	8 594
—New York-Pennsylvania	17 077
	<u>48 918</u>
	<u>222 930</u>
Cubic metre kilometres (millions)	187 127
Average haul (kilometres)	2 293
Average transportation revenue (including Deficiency Agreement)	
—per cubic metre	\$3.78
—per 100 cubic metre kilometres	16.5¢



1979	1978	1977	1976	1975	1974	1973	1972	1971
315,176	269,989	245,699	196,712	194,715	192,944	202,831	164,207	144,393
5,320	16,766	28,988	20,209	—	—	—	—	—
10,323	7,723	4,766	3,725	2,300	2,074	2,461	1,689	2,871
74,020	56,428	47,424	30,902	27,550	31,603	30,699	18,735	13,213
44,806	39,658	44,423	30,924	26,491	27,277	22,075	18,088	17,176
16,975	16,913	15,371	12,675	12,588	11,218	8,415	9,612	8,814
40,992	39,580	38,479	32,224	24,889	24,044	21,803	19,674	18,115
40,175	43,242	44,657	34,399	23,273	24,724	21,481	19,010	18,890
58,339	51,847	45,252	40,407	43,323	40,567	53,034	40,693	35,416
55,512	46,810	43,847	39,115	38,901	35,585	47,785	40,084	35,640
2.17	1.83	1.71	1.53	1.52	1.39	1.87	1.57	1.40
37,744	34,524	30,688	30,688	30,688	30,688	28,127	23,976	21,892
1.47½	1.35	1.20	1.20	1.20	1.20	1.10	0.94	0.86
68%	74%	70%	78%	79%	86%	59%	60%	61%
56,626	52,354	40,791	11,499	(22,575)	(16,695)	(4,800)	(707)	(818)
101,287	93,258	91,907	87,876	78,859	69,193	84,230	70,510	61,719
29,133	9,413	20,197	113,587	151,202	31,192	94,056	66,022	44,783
1,124,158	1,098,376	1,091,747	1,085,984	978,725	828,725	801,416	708,688	646,172
404,698	435,398	474,483	487,859	396,588	296,554	315,874	282,142	264,279
25 620	25 573	25 573	25 573	25 573	25 573	25 573	25 527	25 476
95%	95%	95%	93%	95%	94%	94%	94%	93%
21 747	21 957	21 942	20 359	21 010	20 423	19 621	18 864	19 576
802	791	798	790	755	751	730	706	677
1,402,000	1,389,000	1,368,000	1,375,000	1,296,000	1,103,000	1,098,000	1,004,000	954,000
168 711	147 937	151 087	138 762	146 855	168 394	180 358	139 437	118 134
24 375	25 420	25 526	23 195	23 527	30 661	34 550	34 605	34 488
1 731	1 771	1 842	1 782	1 941	2 096	2 259	2 373	2 475
708	1 207	397	247	254	134	657	508	437
45 949	47 338	43 551	26 492	12 139	6 713	1 768	1 341	513
241 474	223 673	222 403	190 478	184 716	207 998	219 592	178 264	156 047
22 309	19 388	19 831	19 627	21 846	24 751	23 365	18 424	18 459
105 437	96 209	94 061	83 829	81 070	83 395	74 352	65 836	62 101
49 046	43 681	37 007	13 304	—	—	—	—	—
176 792	159 278	150 899	116 760	102 916	108 146	97 717	84 260	80 560
25 920	23 653	28 776	27 333	26 422	26 925	31 061	27 894	25 289
2 675	2 216	2 475	3 968	12 996	26 112	36 438	23 105	14 192
16 973	17 920	18 895	19 205	22 456	26 239	31 937	22 719	19 085
19 089	21 085	21 487	20 825	19 575	20 283	21 729	19 286	16 183
64 657	64 874	71 633	71 331	81 449	99 559	121 165	93 004	74 749
241 449	224 152	222 532	188 091	184 365	207 705	218 882	177 264	155 309
195 958	176 427	173 880	148 183	148 801	171 054	180 816	146 654	125 020
2 224	2 156	2 140	2 153	2 211	2 256	2 263	2 261	2 205
3.64	3.51	3.38	3.15	2.89	2.54	2.54	2.53	2.55
16.4	16.3	15.8	14.6	13.1	11.3	11.2	11.2	11.5



## Corporate Information

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STOCK TRANSFER AGENTS  
The Royal Trust Company - Halifax,  
Montreal, Toronto, Winnipeg,  
Regina, Edmonton, Vancouver

Chemical Bank, New York

*(Change of address should be sent to the closest  
branch of the Transfer Agents)*

STOCK REGISTRARS  
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Edmonton, Vancouver  
Bank of Montreal Trust Company, New York

DIVIDEND DISBURSING AGENT  
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P.O. Box 7500, Postal Station 'A'  
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